[ECONOMY]

Basic income grant 'will power up economy', study finds

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[BL PREMIUM]

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The government should consider gradually raising the social relief of distress grant until it becomes a basic income grant (BIG) by 2030 as this would boost growth and reduce unemployment and poverty, a new study shows.

The research report – conducted by the Institute for Economic Justice (IEJ) and Applied Development Research Solutions – shows the average GDP growth rate could increase by 0.4 to 0.7 percentage points should the R350 social relief of distress grant be increased to R945-R1,417 per person. These amounts correspond with the lower-bound poverty line and upper-bound poverty line, as measured by Stats SA.

"A BIG programme can potentially help SA raise its low GDP growth performance to a moderate level. This result is highly significant, especially when one considers that for only 10 out of 27 years between 1996 and 2022 the GDP growth was above 3%," the report reads.

"Despite its likely significant economic and development contributions, a BIG programme can only be part of larger policy reforms to realise targets such as a 6% average growth rate, zero poverty rate and a 6% unemployment rate by 2030."

The idea of a BIG has been debated for decades, but it has gained more attention in recent years, especially after the Covid-19 pandemic tossed millions of South Africans into poverty. It has polarised economists and policymakers, with some of its opponents saying it is unaffordable and unsustainable in the long run given SA's fiscal constraints and debt levels.

Its cheerleaders — which include the IEJ, an economic think-tank — say the BIG could help reduce poverty, inequality and hunger, which are some of the root causes of the social discontent and frustration that some business leaders have warned could boil over into social unrest.

Social development minister Lindiwe Zulu has previously said her department plans to take its proposed basic income support policy to the cabinet before the end of this financial year.

The Treasury, which has launched a punishing cost-cutting programme to save R213bn over the next four years, has also been considering the feasibility of a BIG and has commissioned a study on the various options.

It has provisionally allocated social protection of R35bn in 2025/26 set aside in the medium-term budget, which could be used for a possible further extension to the social relief of distress grant.

To fund a BIG programme, the research group proposes a range of measures, including introducing a social security tax, increasing VAT and introducing a wealth tax for the country's top earners which is estimated would generate R70bn.

"As the world's most unequal society, with the richest 10% of the population owning more than 85% of household wealth in SA, using a wealth tax to partially finance a BIG programme seems justified, especially since the allocation of assets continues to shape wealth inequality," the report reads.

"At the same time, a social security tax, which will be collected from all formal employment wages and earmarked for the BIG programme, will help increase financing for contemporaneous benefit expansion to poor adults who are currently outside the government's social security programme."

The social relief of distress grant, which expires in March 2025, is widely believed to form the basis of a potential BIG.

"It's a simple approach that can be further developed ... it's just indicative in the sense of showing that it is possible to also fund the BIG as soon as possible. That is done to the wage income of the individuals, and looking at the eligibility that is then adopted and provided to the social security programme by the employees," a co-director of the Economic Modelling Academy at GIBS Business School, Asghar Adelzadeh, said during a presentation on Tuesday.

“The combination of an increase in VAT revenue and this increased introduction of a half-percent and 1% wealth tax allows them to finance the growth cost of the scenario,” he said.

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